

# Fairfax County Economic Index

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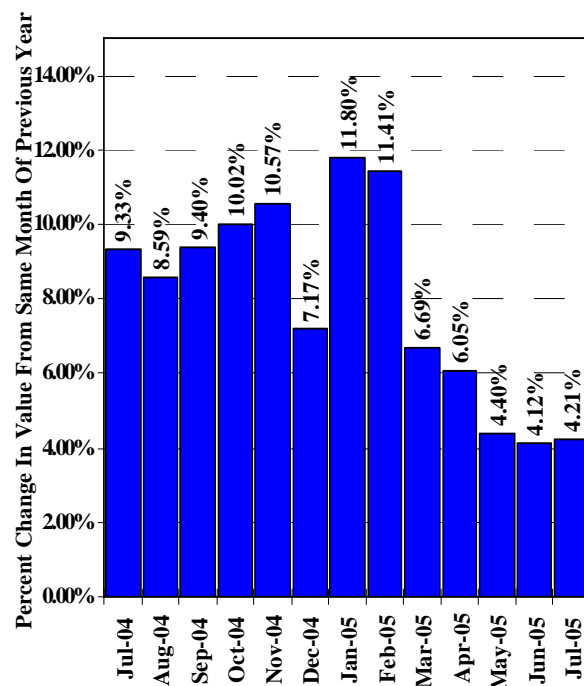
September 2005

## The Fairfax County Economy Slows Over The Summer But Its Expansion Remains Solid

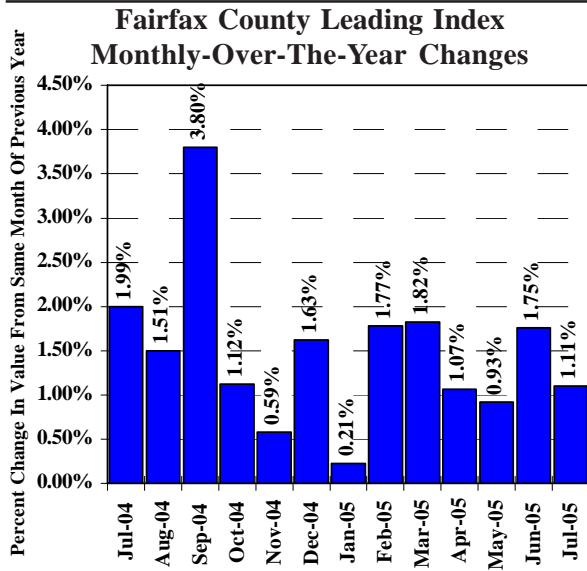
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 132.62 in July for a 0.38 percent decline. This is the Index's second monthly decline in a row and third in four months. Still, for the year, the Coincident Index has gained 4.2 percent extending its positive trend to a twentieth consecutive month. In July, two of the Index's four indicators were negative.

- Total employment growth decreased slightly in July for a third month in a row; and
- Consumer confidence (in the present) declined following two strong monthly gains; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased for a second month; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were up for the second time in three months;

**Fairfax County Coincident Index  
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, declined in July to 108.32 for a decrease of 0.78 percent for only its second monthly decrease over the year's first seven months. On a monthly over-the-year basis, July's Index value was up 1.11 percent and now has increased for twenty-eight consecutive months. In July, two of the Index's three indicators contributed to its decline.

- Consumer expectations (consumer confidence six months hence) decreased following two monthly gains; and,
- New automobile sales fell for the third time in four months; while,
- Initial claims for unemployment insurance decreased (improved) for a second month in a row.

The Fairfax County economy has moderated over the summer months following strong gains in both its Leading and Coincident Indices during 2004 and through early 2005. Both Indices are still expanding on a monthly over-the-year basis and are pointing to the expansion continuing well into 2006. With the recent sharp increase in energy prices likely to sap strength from the national and local economies over the remainder of this year, their expansions could very well moderate further as consumer spending is shifted from more productive sectors to less productive ones. Still, the outlook remains good

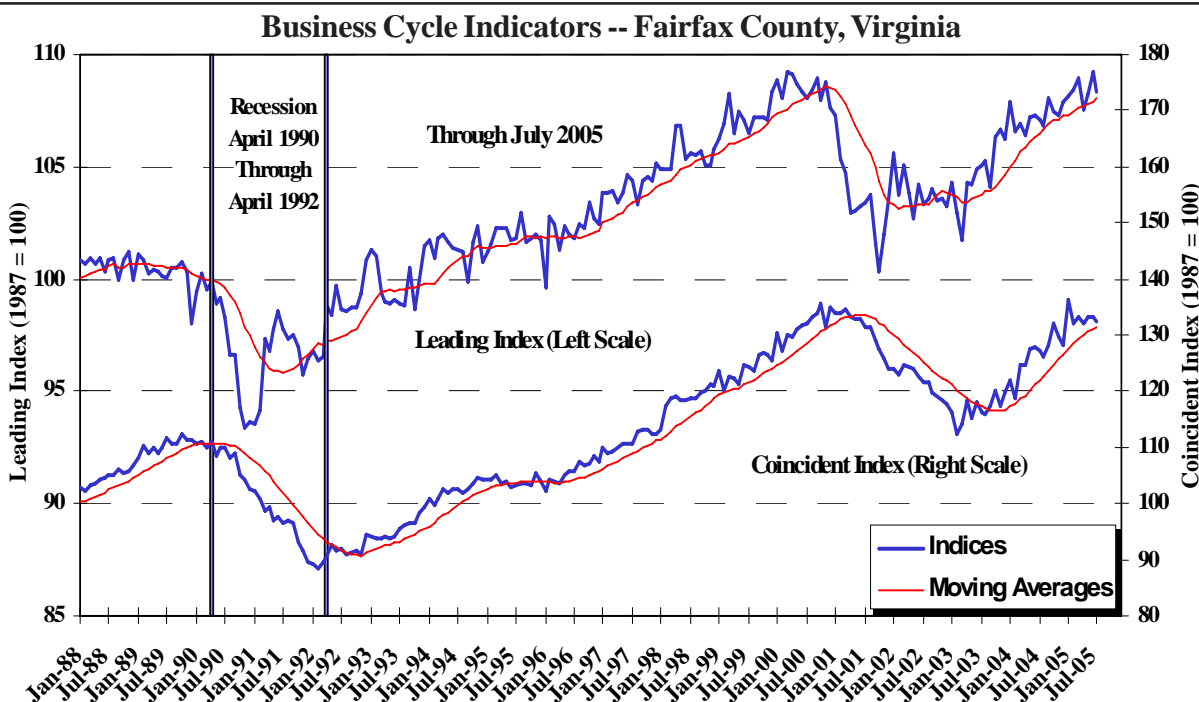
for the Fairfax County economy and job growth and consumer spending should continue to grow over the remainder of the year although this growth could be slightly more moderate than had been expected prior to Hurricane Katrina.

## CURRENT CONDITIONS

The Coincident Index has settled into a slower growth path since February with gains in May, June and July stabilizing at about one-half the rate of growth sustained last year. While this deceleration of the expansion may appear to threaten the economy's longer term vitality, in fact, slower growth will help to extend the expansion by reducing some of the strains that could eventually undermine the economy's ability to grow.

Key among the drivers of the expansion is job growth. While job growth has slowed slightly in recent months in Fairfax County, monthly over-the-year gains are still running at 3.5 percent totaling almost 21,000 in July or one-quarter of the metropolitan area's gain. The availability of qualified workers remains a threat to achieving the economy's growth potential. With unemployment down to 2.5 percent (compared to 3.5 percent for the region) and initial claims for unemployment insurance down 28.5 percent for the year, there are no available idle labor resources to fill the County's continuing strong job growth. These new jobs must be filled by newcomers to the County or by residents from other jurisdictions. While this labor force shortage is a regional problem it is having a greater impact on the fast growing local jurisdictions. Consequently, Fairfax County's continuing expansion could be retarded because of the tight regional labor market.

In spite of weaker consumer confidence in July, consumer spending increased (with the exception of new automobile sales that have been slowed by growing gasoline prices). Retail spending in Fairfax County was up almost 3 percent from June while transient occupancy tax collections (a measure of the hospitality industry) were up 5 percent. For the year these revenues have increased 13.5 percent confirming the renewed strength of the visitor industry in Fairfax County. However, retail sales for the year are up less than their month-to-month gain of 3 percent; compared to July 2004, sales tax revenues are up only 2 percent.



Source: Center for Regional Analysis, George Mason University

There is growing concern that retail sales will be undermined as a result of higher energy costs as consumer spending is shifted from retail purchases to gasoline sales. With the sharp gasoline price increase following Hurricane Katrina, there will be an added negative retail sales effect that will likely undercut holiday sales growth during the fourth quarter.

As energy prices moderate in 2006, retail sales spending will grow. In fact, some lost sales in 2005 will become deferred sales to 2006 so over time some of this year's consumer spending impact will be mitigated by subsequent purchases.

## NEAR-TERM OUTLOOK

The leading Index has been increasing for 28 consecutive months. Even though the Index's rate of growth has slowed in 2005, it continues to grow and, by doing so, it continues to forecast the County's future economic expansion. At a minimum, the Leading Index is pointing to the expansion extending at least to mid-year 2006. With the Washington area economy projected to out-perform the national economy in 2005 and 2006 and the Northern Virginia economy expected to out-perform the metropolitan economy over this period, Fairfax County is well positioned for continuing economic growth. This growth will be seen in gains in jobs, income and consumer spending. With Northern Virginia's job gain

projected to total 53,000 this year, Fairfax County's job gain should range from 25,000 to 26,000, well ahead of July's gain of 21,000 and more in line for gains sustained during the first quarter.

Whether the economy can ramp up during the third and fourth quarters will depend to a degree on the return of business confidence (more business investment) and the magnitude of consumer spending diversion to energy consumption and away from retail and personal services. At the national level the forecasts are that the economic costs of Katrina in lost output and higher prices will take 0.2 percentage points off the year's GDP growth rate and that this 0.2 percentage point will be added to the growth forecast for 2006. This forecast predates the further impacts that may result from Hurricane Rita in terms of lost production, disruption to energy supplies and reconstruction spending.

It is not expected that the Fairfax County economy will suffer the same level of negative impact from the Katrina price increase (and Rita when this is known) as it is less dependent on energy to support its core business activities than other economies and because of its relative affluence these higher energy costs can be more easily absorbed than would be the case in a weaker economy. Overall, the County's economic outlook remains strong while the growth rate will likely moderate slightly over the year's second half.

## Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jul-05 Prelim.	Jun-05 Final	Jul-04 Final	Jun-05 to Jul-05	Jul-04 to Jul-05
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1987 = 100)	132.62	133.13	127.26	-0.38	4.21
Leading Index (1987 = 100)	108.32	109.17	107.13	-0.78	1.11
<b>Fairfax County Coincident Index Components</b>					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	608,646	610,332	587,716	-0.28	3.56
<i>Estimated Total Wage &amp; Salary Employment (Unadjusted)</i>	<i>612,066</i>	<i>617,564</i>	<i>591,019</i>	<i>-0.89</i>	<i>3.56</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	787	750	693	4.97	13.53
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,330</i>	<i>1,394</i>	<i>1,125</i>	<i>-4.61</i>	<i>18.25</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,590	9,316	9,406	2.94	1.95
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>12,733</i>	<i>13,354</i>	<i>12,058</i>	<i>-4.65</i>	<i>5.60</i>
South Atlantic Consumer Confidence	137.5	150.3	127.5	-8.52	7.84
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	5,393	6,676	5,290	-19.21	1.96
<i>Automobile Registrations (Unadjusted)</i>	<i>6,132</i>	<i>7,519</i>	<i>6,014</i>	<i>-18.45</i>	<i>1.96</i>
Initial Unemployment Claims (Seasonally Adjusted)	794	840	1,110	-5.48	-28.53
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>794</i>	<i>797</i>	<i>1,111</i>	<i>-0.38</i>	<i>-28.53</i>
South Atlantic Consumer Expectations (Unadjusted)	97.4	105.5	110.9	-7.68	-12.17
<b>Fairfax County Labor Force</b>					
Total Labor Force (Seasonally Adjusted)	585,385	588,303	575,994	-0.50	1.63
<i>Total Labor Force (Unadjusted)</i>	<i>601,206</i>	<i>597,387</i>	<i>591,561</i>	<i>0.64</i>	<i>1.63</i>
Employed Labor Force (Seasonally Adjusted)	572,899	573,448	566,029	-0.10	1.21
<i>Employed Labor Force (Unadjusted)</i>	<i>586,247</i>	<i>580,189</i>	<i>579,217</i>	<i>1.04</i>	<i>1.21</i>
Unemployed Labor Force (Seasonally Adjusted)	12,486	14,855	9,965	-15.95	25.30
<i>Unemployed Labor Force (Unadjusted)</i>	<i>14,959</i>	<i>17,198</i>	<i>12,344</i>	<i>-13.02</i>	<i>21.18</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.13	2.53	1.73	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.49</i>	<i>2.88</i>	<i>2.09</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

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We are on the web at:  
[www.co.fairfax.va.us/comm/economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)

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